

AMENDED IN SENATE AUGUST 15, 2011

AMENDED IN SENATE JUNE 23, 2011

AMENDED IN SENATE JUNE 21, 2011

AMENDED IN ASSEMBLY MAY 27, 2011

AMENDED IN ASSEMBLY MARCH 14, 2011

CALIFORNIA LEGISLATURE—2011–12 REGULAR SESSION

ASSEMBLY BILL

No. 1379

**Introduced by Assembly Member Bradford
(Principal coauthor: Assembly Member V. Manuel Pérez)**

February 18, 2011

An act to add Sections ~~7504.5~~ 7504.3 and 13997.4 to the Government Code, relating to economic development.

LEGISLATIVE COUNSEL'S DIGEST

AB 1379, as amended, Bradford. Economic development: public pension funds.

(1) Existing law creates various public pension systems and requires that all state and local public retirement systems secure the services of an enrolled actuary, not less than triennially, to perform a valuation of those systems. Existing law requires all state and local public retirement systems to submit audited financial statements to the Controller who is required to compile and publish a report annually on the financial condition of the systems.

This bill would require a state or local pension system with assets over \$4,000,000,000 to provide a report to the Controller on California investments, as defined, and emerging domestic market investments,

as defined, that it obtains on and after July 1, 2012, and holds in its portfolio. The bill would also permit the report to include an estimate of the number of jobs created and retained as a result of the system's investment activity. The bill would also make a statement of legislative findings and declarations in this regard. Because the bill would impose additional duties upon local governments, it would create a state-mandated local program.

(2) Existing law creates the California Economic Development Fund for the purpose of receiving federal, state, local, and private economic development funds, and receiving repayment of loans or grant proceeds and interest on those loans or grants. Existing law establishes certain definitions in this regard and defines economic development as including policies and programs expressly directed at improving the business climate in business finance, marketing, neighborhood development, small business development, business retention and expansion, technology transfer, and real estate redevelopment.

This bill would state the intent of the Legislature that retirement *boards of public pension or retirement* systems with sufficiently diversified portfolios, consistent with their plenary authority and their fiduciary responsibilities, adopt emerging domestic market investment policies, as defined, that meet their own unique investment objectives. The bill would require the Board of Administration of the Public Employees' Retirement System together with the Teacher's Retirement Board of the State Teachers' Retirement System to share with other public pension systems streamlined and cost-effective methods for identifying investments within their portfolios that meet the definitions of California investment and emerging domestic market investment. The bill would authorize the Controller to compile and publish specified investment information supplied by state and local pension systems on ~~its~~ *the Controller's* Internet Web site, as provided. The bill would also make a statement of legislative findings and declarations in this regard.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 *SECTION 1. (a) The Legislature finds and declares the*
- 2 *following:*
- 3 *(1) Public pension fund investments represent billions of dollars*
- 4 *of financing for California communities, and the state could adopt*

1 *and implement more effective economic development policies with*
2 *better information on fund investments in California and in*
3 *emerging domestic markets.*

4 *(2) Historically, economic growth in California has outpaced*
5 *the economic growth rate of the nation as a whole, and the state*
6 *has led the nation in export-related jobs, business startups, and*
7 *innovation. However, since the subprime home mortgage crisis in*
8 *2007, California communities have struggled. With the increasing*
9 *rates of home foreclosure and the tightening of the credit markets,*
10 *many businesses have found their existing lines of credit*
11 *inaccessible. Significant drops in consumer spending have led to*
12 *workforce reductions and business bankruptcies.*

13 *(3) For much of 2009, the number of unemployed workers rose*
14 *by 40,000 to 60,000 per month, and the year ended with 2.25*
15 *million unemployed California workers. While California may be*
16 *emerging from the recession, unemployment is expected to remain*
17 *high through 2011. Without specific intervention to support job*
18 *creation and business expansion, many regions of California will*
19 *be very slow to recover.*

20 *(4) As California moves forward from this recession, it is*
21 *important that the state support the recovery and expansion of*
22 *industries that provide quality jobs, enhance regional and global*
23 *supply chains, and strengthen the state's competitiveness.*

24 *(5) Modern investment theory includes a set of concepts aimed*
25 *at building a most efficient portfolio of different types of assets*
26 *that yields the highest return for a given level of investor risk.*
27 *Diversification is one of the key elements in building a portfolio,*
28 *including diversification by asset class and by geography. Given*
29 *that the United States is the largest economy in the world and that*
30 *California is the largest economy in the United States, a certain*
31 *portion of any fully diversified investment portfolio includes*
32 *investments in California. Therefore, there is a clear alignment of*
33 *interest between medium to large institutional investors and the*
34 *economic recovery of California.*

35 *(6) Investments in emerging domestic markets can provide*
36 *appropriate risk-adjusted returns to institutional investors*
37 *including public pension funds. In 2000, the boards of*
38 *administration for the Public Employees' Retirement System and*
39 *the State Teachers' Retirement System each adopted a 2-percent*
40 *goal for investments in emerging domestic markets. These*

1 *investments, first, have created value for the members of those*
2 *retirement systems and, second, have increased access to financial*
3 *capital in historically underserved markets and historically*
4 *disadvantaged groups of people.*

5 *(b) It is the intent of the Legislature, consistent with the plenary*
6 *authority and fiduciary responsibilities of the retirement boards*
7 *of public pension or retirement systems under Section 17 of Article*
8 *XVI of the California Constitution, that those retirement boards*
9 *that have sufficiently diversified portfolios adopt emerging*
10 *domestic market investment policies that meet their own unique*
11 *investment objectives.*

12 SECTION 1. Section 7504.57504.3 is added to the Government
13 Code, to read:

14 ~~7504.5. (a) The Legislature finds and declares that public~~
15 ~~pension fund investments represent billions of dollars of financing~~
16 ~~for California communities and that the state could adopt and~~
17 ~~implement more effective economic development policies with~~
18 ~~better information on fund investments in California and in~~
19 ~~emerging domestic markets.~~

20 ~~(b)~~

21 7504.3. (a) In addition to its annual audited financial statement
22 submitted to the Controller pursuant to subdivision (c) of Section
23 7504, each state or local public retirement system with assets of
24 over four billion dollars (\$4,000,000,000) shall include a report
25 on California investments, as defined in paragraph (1) of
26 subdivision (c) of Section 13997.4, and emerging domestic market
27 investments, as defined in paragraph (2) of subdivision ~~(e)~~ (a) of
28 Section 13997.4, that it obtains on and after July 1, 2012, and holds
29 in its portfolio. Investments by asset class shall be reported by fair
30 market value and percentage of the total portfolio. The report may
31 also include an estimate of the number of jobs created and retained
32 as a result of the system's investment activity. *The information*
33 *reported by the public pension systems shall not exceed the scope*
34 *of information allowed by the California Public Records Act.*

35 ~~(e)~~

36 (b) A state or local public retirement system may elect to satisfy
37 the reporting requirements of this section by reporting on its total
38 portfolio rather than only those investments made after July 1,
39 2012, if information is provided and identified consistently with
40 the definitions in subdivision ~~(e)~~ (a) of Section 13997.4.

1 SEC. 2. Section 13997.4 is added to the Government Code, to
2 read:

3 ~~13997.4. (a) The Legislature finds and declares that:~~

4 ~~(1) Historically, economic growth in California has outpaced~~
5 ~~the economic growth rate of the nation as a whole, and the state~~
6 ~~has led the nation in export-related jobs, business startups, and~~
7 ~~innovation. However, since the subprime home mortgage crisis in~~
8 ~~2007, California communities have struggled. With the increasing~~
9 ~~rates of home foreclosure and the tightening of the credit markets,~~
10 ~~many businesses have found their existing lines of credit~~
11 ~~inaccessible. Significant drops in consumer spending have led to~~
12 ~~workforce reductions and business bankruptcies.~~

13 ~~(2) For much of 2009, the number of unemployed workers rose~~
14 ~~by 40,000 to 60,000 per month, and the year ended with 2.25~~
15 ~~million unemployed California workers. While California may be~~
16 ~~emerging from the recession, unemployment is expected to remain~~
17 ~~high throughout 2010 and 2011. Without specific intervention to~~
18 ~~support job creation and business expansion, many regions of~~
19 ~~California will be very slow to recover.~~

20 ~~(3) As California moves forward from this recession, it is~~
21 ~~important that the state support the recovery and expansion of~~
22 ~~industries that provide quality jobs, enhance regional and global~~
23 ~~supply chains, and strengthen the state's competitiveness.~~

24 ~~(4) Modern investment theory includes a set of concepts aimed~~
25 ~~at building a most efficient portfolio of different types of assets~~
26 ~~that yields the highest return for a given level of investor risk.~~
27 ~~Diversification is one of the key elements in building a portfolio,~~
28 ~~including diversification by asset class and by geography. Given~~
29 ~~that the United States is the largest economy in the world and that~~
30 ~~California is the largest economy in the United States, a certain~~
31 ~~portion of any fully diversified investment portfolio includes~~
32 ~~investments in California. Therefore, there is a clear alignment of~~
33 ~~interest between medium to large institutional investors and the~~
34 ~~economic recovery of California.~~

35 ~~(5) Investments in emerging domestic markets can provide~~
36 ~~appropriate risk-adjusted returns to institutional investors including~~
37 ~~public pension funds. In 2000, the boards of administration for the~~
38 ~~Public Employees' Retirement System and the State Teachers'~~
39 ~~Retirement System each adopted a 2-percent goal for investments~~
40 ~~in emerging domestic markets. These investments, first, have~~

1 created value for the members of those retirement systems, and
2 second, have increased access to financial capital in historically
3 underserved markets and historically disadvantaged groups of
4 people.

5 (b) It is the intent of the Legislature, consistent with their plenary
6 authority and fiduciary responsibilities under Section 17 of Article
7 XVI of the California Constitution, that retirement systems with
8 sufficiently diversified portfolios adopt emerging domestic market
9 investment policies that meet their own unique investment
10 objectives.

11 (e)–

12 13997.4. (a) For the purposes of this section:

13 (1) “California investment” means an investment that produces
14 competitive risk-adjusted rates of return while still promoting
15 economic and community development opportunities. In the case
16 of fund-to-fund investments or opportunistic investments,
17 “California investment” may include moneys that are directed
18 under an agreement with the asset manager to be primarily invested
19 in California. “California investment” includes, but is not limited
20 to:

21 (A) A publicly held company with a headquarters or significant
22 operations in California.

23 (B) A privately held company that is headquartered in California.

24 (C) Real estate in California or loans on real estate located in
25 California.

26 (2) “Emerging domestic market investment” means an
27 investment that produces competitive risk-adjusted rates of return
28 while still promoting economic and community development
29 opportunities to areas of the state that historically have had limited
30 access to capital markets. “Emerging domestic market investment”
31 also means an investment that produces competitive risk-adjusted
32 rates of return while still promoting economic and community
33 development opportunities and that targets groups of people who
34 are historically underserved.

35 (d)

36 (b) The Board of Administration of the Public Employees’
37 Retirement System together with the Teacher’s Retirement Board
38 of the State Teachers’ Retirement System shall share with other
39 public pension systems streamlined and cost-effective methods
40 for identifying investments within their portfolios that meet the

1 definitions of California investment and emerging domestic market
2 investment.

3 (e)

4 (c) The Controller may compile and publish the information
5 that state and local pension systems ~~may~~ *are required to* provide
6 pursuant to Section ~~7504.5~~ 7504.3 within, or linked to, the report
7 issued pursuant to Section 7504 and made available on the
8 Controller's Internet Web site. If the Controller decides to compile
9 and publish the information provided by the pension systems, the
10 information shall be published on the Controller's Internet Web
11 site within 12 months of the receipt of the information, and in no
12 case later than 18 months after the end of the fiscal year upon
13 which the information is based.

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